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Nexus between Foreign Remittance and Economic Growth in Bangladesh

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ABSTRACT

Objective: The aim of this study review the current literature for determining the nexus between foreign remittance and economic growth in Bangladesh. Foreign remittance plays a pivotal role for economic growth in developing countries. It has taken a considerable attention to promote economic development compared to others sources of capital inflows such as aids, loans and foreign direct investments due to direct impact on socio-economic acceleration in a country. As a developing country, Bangladesh is one of the top 10 remittance-recipient countries in the world. Recently, the trends of remittance inflow are shrinking due to geopolitics and Middle East crisis.
Methodology: Previous studies were reviewed, made literature matrix for findings literature and methodological gaps.
Results: The evidences in the literature reveal that the nexus between foreign remittance and economic growth is inclusive and ambiguous for direct or indirect transmission channels through the inclusion of other variables in the analysis as financial development, investment, trade, consumption and poverty alleviation.
Implications: Therefore, remittances inflow not only enhances economic growth and development but also reduces poverty in the labor exporting country.

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1. Introduction

Foreign remittance plays a pivotal role for economic development, particularly in developing countries. Due to stable and direct contribution to rural economy, it has taken a considerable attention to promote economic growth compared to others sources of capital inflows such as aids, loans and foreign direct investments (Jawaid, and Raza, 2012). In last few decades, foreign remittance increased more than 20 times. Recent evidence shows that worldwide remittance inflows exceeded in total 440 billion in US dollar in 2010, where in developing countries only transmitted US 350 billion in US dollar (World Bank, 2011; Nyamongo et al. 2012). Therefore, foreign remittance is a dependable, continual and attractive foreign earning source for developing countries and the staggering growth of its flows promoted to researchers to analyze the role of foreign remittance for short-run, long run and causal impact on economic development of developing countries (Salahuddin and Gow, 2015; Kumar, Stauvermann, Kumar and Shahzad, 2018).

As a developing country, Bangladesh is one of the top 10 remittance-recipient countries in the world. Particularly, Bangladesh labor market is based on Middle East. According Bangladesh Bank Report (2017), Gulf region contributed 55.3% remittance from total recipient remittance of Bangladesh. Recently, the trends of remittance inflow are shrinking due to geopolitics and Middle East crisis. However, considering the global reality, the figure 1 and 2 shows that the migration from Bangladesh is quite remarkable and income from foreign remittance has currently recorded 13473.47 million US dollar, which has been 7.30% of the country's GDP in 2018 (Bangladesh Bank, 2018). Interestingly, GDP as percentage of Bangladesh is increasing but remittance inflow is slow down from 2015 (BBS and GOB, 2016).

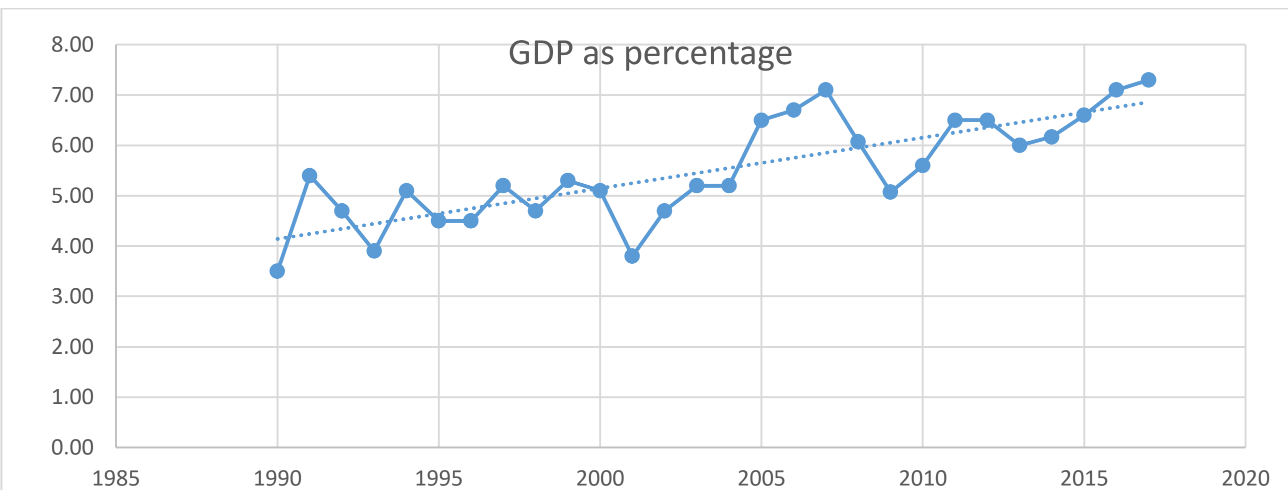

Figure 1: GDP of Bangladesh in percentage
Source: Bangladesh Bank (2018)

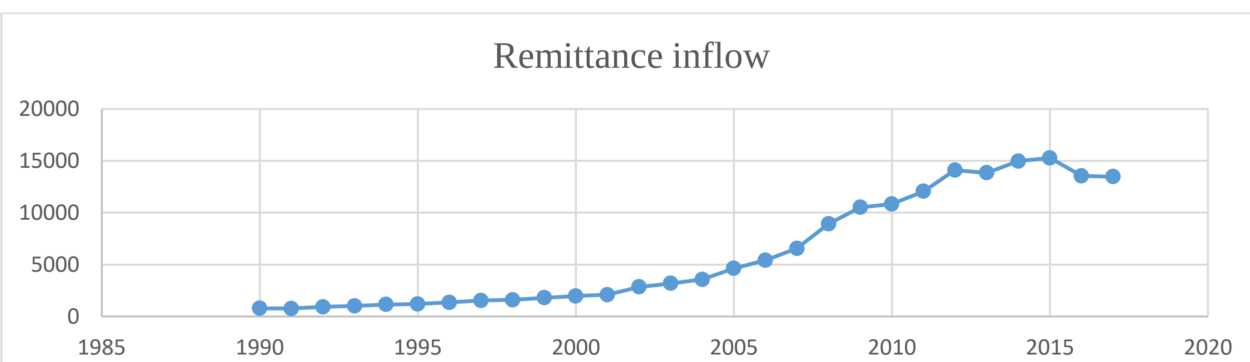

Figure 2: Remittance inflow in Bangladesh
Source: Bangladesh Bank (2018)

The current empirical evidences in the literature reveal that the nexus between foreign remittance and economic growth is inclusive and ambiguous for direct or indirect transmission channels through the inclusion of other variables in the analysis as financial development, investment, trade, consumption, etc. Indeed, some empirical works stress that workers' remittances positively influence economic growth, while others do not share this view and find that the impact is negative (Chami et al., 2005; Kireyev, 2006; Jongwanich, 2007; Ratha, 2007; Bjuggren et al., 2010; Parinduri and Thangavelu, 2011). Moreover, it is eventually important to determine the causality between foreign remittance and economic growth but the causal relationship among these variables has not received more attention yet. In this context, very few researches have focused on investigating the causality among the variables directly or through transmission channels (Le, 2009; Bettin et al., 2009; Ahmed and Salah Uddin, 2009; Siddique et al., 2010).

Further, evidence shows that there are positive link between increase of foreign workers and decline the number of people in poverty. Therefore, more migration indicates more foreign remittance and it has given more and more focus as a contributor to development and poverty alleviation in Bangladesh (Karunaratne and Dassanayake, 2018). Interestingly, foreign direct investment has sharply dropped in recent year, foreign remittance play a role to fill the gap of balance of trade in many developing countries and foreign migrant's remittances offer a positive role to resolve the problems of shortages of foreign exchange reserves. However, little attention has been given to investigate the economic impact of foreign remittance on economic growth, especially on poverty alleviation and investment. Moreover, since it could positively affect economic growth and reduce poverty, the rapid increase in such inflows could generate the adverse effects to the overall economy, retarding the economic growth, i.e. the 'Dutch Disease' problem (Jongwanich, 2007).

2. Literature Review

Remittance has been playing a very significant role to the sustainable economic development of a developing country like Bangladesh and other developing countries. There are plenty of literature on the impact of remittance and economic growth in the developing countries. Interestingly, most of the results are based on cross-country regressions and the results of these study are still produce inclusive and mixed (Meyer and Shera, 2017, Adams and Klobodu, 2016; Baldé, 2011). Further, most of the studies have been conducted by time series techniques (Luqman and Haq, 2016; Tahir et al., 2015, Hussain and Anjum, 2014; Ramirez, 2014).

Kamal and Rana (2019) by examining the effect of remittance on household expenditure and asset accusations in Bangladesh by employs the propensity score matching technique found that the effects of remittances vary on household expenditure and asset accumulation in the context of internal and external sources.

Jamal and Husein (2019) investigated the long-run relationship of foreign aid and workers' remittances on Jordanian economic growth in the time span 1970-2014 using time series techniques. The result of this study showed that foreign workers remittances have had a positive and significant relationship on economic growth in Jordian economics.

Kumar et al. (2018) investigated the impact of foreign remittances on reducing volatility of household consumption using a panel data technique for 84 developing countries from 1980 to 2014. The results of this study revealed that international migrants' remittances may be indeed contribute significantly to households' welfare by reducing the volatility of consumption in remittance receiving developing countries both in the short and long run.

Evans and Kelikume, (2018) This study investigates the impact of Foreign Direct Investment, migrant's remittances and Official Development Assistance on economic growth of Nigeria over the period 1984-2014 by using time series the results, foreign direct investment has a positive and significant impact on the Nigerian economy in the long term and in the short term.

Michael (2018) this thesis observes the impact of foreign support on foreign direct asset (FDI) in Africa the method used in the research is System Generalized Method of Moments (GMM) to examine relative effects of development assistance on FDI.

Zardoub and Sboui, (2018) This study investigates the effects of FDI, trade, aid, remittances and tourism on welfare in Nigeria under terrorism and militancy by using non-linear econometric models, the Cobb-Douglas production function the empirical findings showed that, in the short run, FDI, trade, aid, remittances and tourism had positive significant effects on welfare, even under terrorism and militancy.

Yilmaz, (2016) investigated the causal relationship among foreign capital inflows including foreign direct investment, foreign portfolio flows, remittances, and stock market development in Turkey by using tested the stationarity of the variables by ADF (1981) and PP (1988) unit root tests the findings of empirical studies in the literature and supported that FDI contributed to the stock market development.

Tahir, Khan and Shah (2015) determined the relationship between external determinants and economic growth in Pakistan from 1977 to 2013 by using time series approach. The evidence found that foreign imports have adversely influenced the economic growth of Pakistan.

Le De, Gaillard, Friesen and Smith, (2015) This study investigates the role of remittances in households' response to disasters by using both qualitative and quantitative this study found that remittances are very fast in reaching those affected and remain high in the long term in order to cope with and recover from disaster.

Siddique, Selvanathan and Selvanathan (2012), this article investigates the causal link between remittances and economic growth in three countries, Bangladesh, India and Sri Lanka using time series data over a 25-year period, we found that growth in remittances does lead to economic growth in Bangladesh.

Table 1: Summary of the Literature

Authors and Date	**Objectives and Methodology**	**Findings**
Kamal & Rana (2019)	To examine the effects of remittance on household expenditure and assets accumulation during the study period 2010-2016 in Bangladesh applying propensity score matching techniques and	Findings suggest that the effects of remittance vary on household expenditure and asset accumulation in the context internal and external sources
Jamal and Husein (2019)	To investigate the long-run relationship of foreign aid and workers' remittances on Jordanian economic growth in the time span 1970-2014 using time series	Result showed that foreign workers remittances have had a positive and significant relationship on economic growth in Jordan economics.
Ripon et al., (2018)	To investigate the impact of remittances on reducing volatility of household consumption using panel dataset of developing countries.	Findings showed that this study highlight the international migrants remittance that may indeed contribute significantly to household welfare by reducing volatility of consumption in developing countries for
Faouzi et al., (2018)	To investigates the impact of Foreign Direct Investment, migrant's remittances and Official Development Assistance on economic growth of Nigeria over the	Results, foreign direct investment has a positive and significant impact on the Nigerian economy in the long term and in the short term

Bayar, (2016)	To investigates the causal relationship among foreign capital inflows including FDI, foreign portfolio flows, remittances, and stock market development in Turkey	Findings of empirical studies in the literature and supported that FDI contributed to the stock market development in Turkey.
Tahir, Khan & Shah (2015)	To determine the relationship between external determinates and economic growth in Pakistan for study span 1977-2013 using time series techniques	Results showed that foreign imports have adversely influenced the economic growth of Pakistan
Siddique, Selvanath & Selvanathan, (2012).	To investigates the causal link between remittances and economic growth in three developing countries, Bangladesh, India and Sri Lanka in the study span 1978-2012 using time series techniques	Results found that growth in remittances does lead to economic growth in Bangladesh

Source: Authors own

3. Conclusion and Recommendations

From the empirical evidence, it is shown that there are positive and significant relationship between foreign remittance and economic growth. Most of the researchers determined the direct relationship between foreign remittance and economic growth and they had focused on single country based research. There were very few studies conducted on causal relationship and cross-countries perspectives. Further, most of the developing countries have been suffered from the cursed of poverty but it has not been addressed yet.

The impact of remittance in both receiving and home countries have attracted an attention from policy makers and researchers at large. Particularly, the policy makers of developing countries have concerned more for sourcing the receiving countries to send migrant labor. Migrant workers may raise many issues which are related to the job, safety and security for recipient country. Therefore, remittances inflow not only enhances economic growth and development but also reduces poverty in the labor exporting country. Most notably, this view was supported by Adam (2011) who argued that remittances boost income levels and investment in health, education and Physical assets, thereby contributing towards poverty reduction (Tsaurai, 2018).

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